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## **"Activation" of Social and Labour Market Policies in the Nordic Countries, 1990-2010**

*CCWS Working Paper 71*

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*Publication date:*  
2011

*Document Version*  
Early version, also known as pre-print

[Link to publication from Aalborg University](#)

*Citation for published version (APA):*  
Andersen, J. G. (2011). "Activation" of Social and Labour Market Policies in the Nordic Countries, 1990-2010: CCWS Working Paper 71.  
[http://www.epa.aau.dk/fileadmin/user\\_upload/mb/CCWS/Publications/working\\_papers/71-2011-Joergen-Goul-A-redigeret.pdf](http://www.epa.aau.dk/fileadmin/user_upload/mb/CCWS/Publications/working_papers/71-2011-Joergen-Goul-A-redigeret.pdf)

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in the Nordic Countries, 1990-2010**

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Layout: Connie Krogager

Aalborg 2011

ISBN: 978-87-92174-15-4

ISSN: 1398-3024-2011-71

# **”Activation” of Social and Labour Market Policies in the Nordic Countries, 1990-2010**

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## 1. Introduction

The purpose of this paper is to provide an overview of some of the major changes in labour market and social policies in the Nordic countries 1990-2010. The emphasis is on adaptation to challenges of ageing, globalization, and of alleged distortions of social security schemes themselves. This has sometimes been described as a turn towards a “social investment approach”, but we take a somewhat broader view and speak of the attempts to “activate” social protection and taxes. In this description, we pay particular attention to changes that could have a “transformative” potential – e.g. by making the Nordic model(s) somewhat less “Nordic”.

Even though welfare policy is conventionally described as “politics against markets” (Esping-Andersen, 1985), welfare states in open economies also have to act in conformity with the market. Indeed, the most important Nordic welfare reforms 1990-2010 were aimed at strengthening market efficiency, without dramatically scaling back the role of the state (whether the reforms really did enhance efficiency is another matter; at least that is what political decision makers believed).

Emphasizing challenges does not mean that changes should be interpreted in functional(ist) terms as “necessary” adaptation to new economic conditions, nor should the changes be explained only in political terms. Indeed economic pressures do play an important role. So does politics. But ideas should also be taken into account. Political actors act on the basis of *perceived* economic pressures, and on causal assumptions. Some of the (in retrospect) obvious mistakes that contributed to the financial crisis in 2008 and onwards were reflections of what turned out to be wrong ideas. Politicians are uncertain about what to do. As pointed out in Heclø’s (1974) classical statement, politicians not only “power”. They also puzzle. And much of the history of Nordic welfare states, including transformative change, can indeed be presented as the outcome of incremental adjustments and small experiments. As regards perceptions, there has for a long time been a widely shared problem consciousness among political decision makers all over Europe that welfare states were facing challenges of globalization and competitiveness, and of ageing/dependency/labour shortage. As with new public management in the field of services, there have been international *waves of reform* to address these problems, with the Nordic countries frequently appearing among first movers (or role models), more seldom in the role as rearguard.

Leaving aside the causes, including the omnipresent motives of cost containment and efforts to enhance public service efficiency, this paper will focus in particular on the dependent variable. Inevitably, what we observe is influenced by theoretical expectations regarding the independent variables, but we try to be as open-minded as possible, considering economic, political, and ideational forces, as well as institutional dynamics like path dependence. More importantly, though, the observations are influenced by theoretical expectations regarding the direction of welfare state change (Goul Andersen, 2007b). Should we be looking simply for retrenchment, or should we be looking for neoliberal reforms (in particular for re-commodification)? Should we be looking for “recalibration” falling somewhere in-between, e.g. for (more) mixed economies of welfare?

As indicated, the analysis is focussed on what could broadly be summarized as “activation of social protection”, that is, on reforms that seek to “activate” the entire welfare system as well as the tax system.<sup>1</sup> At least in descriptive terms, this seems an appropriate umbrella

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<sup>1</sup> This perspective is inspired, not least, by Jean-Claude Barbier (2002, 2004; and personal communication).

concept that could cover the most. The concept is broader than e.g. the notion of “social investment state” which has a connotation of developing human resources. As regards scope, “social investment” does not include policy fields like taxation or retirement policy; as regards instruments, “social investment” is more about providing resources and opportunities than about more coercive means. “Activation of social protection” is a much broader umbrella concept.

The approach may be slightly biased in favour of economic and ideational explanations, but the paper will also focus also on articulated political interests, on how outcomes serve such interests, and on the impact on citizenship. “Activation of social protection” is a concept that is equivalent to categories like “recalibration” of the welfare state (Pierson, 2001), but it is more precise by indicating direction and concern. Still, it should be supplemented by considerations about whether the observed changes are “transformative” in the sense that they affect basic principles or have profound impact on outcomes, in particular on those outcomes that are relevant from a citizenship perspective (Goul Andersen, 2007b).

As regards labour market policy, “activation of social protection” reaches far beyond the issue of “activation of unemployed”; it affects all aspects of labour market policy. Moreover, the notion of “activation of social protection” does not only include changes of labour market policy, but also tax reforms, pension reforms and inclusion of new target groups for employment.

These reforms were carried through under institutional constraints, and they of course also involved political interest conflicts. Changes have been quite far-reaching and arguably even involved a transformation of citizenship in terms of rights and duties, active participation and self-responsibility (Jensen & Pfau-Effinger, 2005; Goul Andersen & Guillemard, 2005; Hvinden & Johansson, 2007). An important question is of course whether the reforms represent a transformation of the Nordic welfare model, or whether it is “only” an instance of restructuring – finding more sustainable ways to maintain welfare, rather than dismantling it. Sometimes it is necessary to change everything (institutionally) to maintain everything as it was (in terms of outcomes). The relationship between institutional changes and outcomes is never straightforward and sometimes quite paradoxical (Kangas, 2007: 288; Goul Andersen, 2007b). Different institutions may sometimes produce equivalent outcomes; and similar institutions may produce different outcomes in different contexts.

As regards tax and social policy, we comment briefly on distributional impact whereas institutional changes of labour market policy are assessed from a decommodification / recommodification perspective. In this paper, the concepts of de- and recommodification refer to the impact of market position on equality, and on citizenship in particular (Goul Andersen, 2005, 2007). They do *not* refer to the broader notion of introducing market forces or enhancing market conformity in general. In this very broad sense, nearly all reforms might be described as instances of commodification – at least, that was the intention – but it is preferable to keep the concepts of marketization, promotion of efficiency, and commodification distinct.

## **2. Tax reforms: Lower taxes on labour and capital**

The Nordic countries were latecomers to a worldwide wave of tax reforms aimed at enhancing labour supply and competitiveness – at least, that was the justification – in the aftermath of the 1986 reform in the US. Like in most countries, Nordic corporate tax rates were substantially reduced 1990-2010 – in Denmark and Sweden to about one half of the peak levels in the 1970s or 1980s. However, as this happened mainly by broadening the tax

base, and as corporate taxes only constitute a small part of aggregate taxes, they are of less interest from a welfare state perspective. The important issue is what happened to taxes on incomes.

More than anything, it is "income taxes" (in the broadest sense, including social contributions, payroll taxes etc.) that provide redistribution. Even a proportional tax ("flat tax") redistributes income quite significantly,<sup>2</sup> but the Nordic countries have traditionally been characterized by progressive (and high) income taxes. At the peak – although only for one year – Sweden had marginal taxes up to 87 per cent (1979); in Denmark 73 per cent was the standard marginal tax rate for the upper decile or more 1982-1986<sup>3</sup>, and the highest rates in Norway and Finland were also above 70 per cent around 1980.

As from the late 1980s, income taxes and in particular marginal taxes were criticized, also in the Nordic countries, for their presumed impact on labour supply and for other sorts of distortions. Theoretically speaking, impact of taxes on labour supply could work both ways ("income effect" or "substitution effect", respectively) – or working time could be so constrained institutionally (e.g. by labour time agreements, see Goul Andersen, 2007c) that taxes would not really matter anyway. Empirical evidence from the Nordic countries is limited and somewhat disputed.<sup>4</sup> But even though the idea of a Laffer curve never caught ground (Kleven & Kreiner, 2006), the assumption of a (net) negative impact on labour supply prevailed politically – and among most mainstream economists – in the Nordic countries.<sup>5</sup>

From the early 1990s, this was supplemented by a concern for global competitiveness. Whereas labour had previously been seen as an immobile tax object, there was increasing concern for migration of highly qualified workers due to tax (dis)incentives. As far as emigration is concerned, empirical evidence from the Nordic countries is mostly negative (Velfærdskommissionen, 2005; Pedersen, Røed & Schröder, 2003). Still, the fear has often been expressed that high-qualified workers would in the future be tempted to leave the Nordic countries because of tax disincentives (having exploited the benefits of free education and generous cash support for students before leaving).

Whereas the labour supply argument addresses *marginal* taxes, the migration argument is about *average* taxes, and about the sum of *all* taxes – or rather: about the sum of *all* taxes plus "necessary" social expenditures. Considering that mobility across borders is mainly found among the young, and considering that young people usually get children sooner or

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<sup>2</sup> Actually, even regressive taxes are usually redistributive. Only poll taxes (equal amount per head) are neutral to distribution (provided that money is spent as lump sum payments – if risk and take up is equally distributed).

<sup>3</sup> Accurate information about figures are only available from 1994 when 14 per cent (616.000) were above the equivalent bracket (see Danish Min. of Taxation [http://www.skm.dk/tal\\_statistik/tidsserieoversigter/1288.html](http://www.skm.dk/tal_statistik/tidsserieoversigter/1288.html)). Before 1982, the tax ceiling was 70 per cent.

<sup>4</sup> It has become common to distinguish between a participation effect for non-employed and a working time effect for employed. Danish evidence as regards the former is very limited (Smith, 1995; Graversen, 1997; Frederiksen et al., 2001; see also survey evidence in Goul Andersen (2007c); for participation effects see Graversen, 1996. Due to measurement problems regarding working time, it has been suggested to use income as an alternative indicator. A famous study by Feldstein (1995) indicated enormous effects of tax reliefs for the most wealthy, but due to the conspicuous acceleration of top incomes currently (Atkinson, Piketty & Saez, 2009) – in the US labelled "Winner-Take-All-Politics" (Hacker & Pierson, 2010), this could be tantamount to conflating political power with labour effort. Power is exactly the explanatory variable in the analysis of Hacker & Pierson (2010).

<sup>5</sup> Needless to say, this includes bank economists (who occupy a major role in the media), but at least in Denmark it also recommendations from the experts of the Economic Council.



later, the relevant question is how incentives look *for this target group*. Indeed, it is questionable whether young people have any *economic* incentives to leave the Nordic welfare model with its high priority to families with children (Goul Andersen, 2006).

From a political science point of view, it might seem naive to look for any other explanations than simple interests. Politicians have typically conflated the arguments about marginal and aggregate taxes above, sometimes putting up nonsense arguments. This is perfectly understandable from a classical interest perspective where justifications are epiphenomenal to interests. However, it remains that most reforms were carried through by the Social Democrats or at least with the consent of the Social Democrats, and for instance in Denmark, the Social Democrats indeed did change position on the tax issue between 1989 and 1993 (Albrekt Larsen & Goul Andersen, 2009). Even though reduction of tax evasion was among the Social Democratic motives,<sup>6</sup> it seems undeniable that prevailing neoliberal ideas also played a role.

As mentioned, the Nordic countries (except Denmark) were latecomers to the wave of worldwide tax reforms in the 1980s. But an array of tax reforms was carried through in all the countries, and this continued into the current century. Nordic reforms were based on the principles of lower tax rates, financed through a broadening the tax base (rather than by cuts in social spending), but with a few notable exceptions. Besides, with the partial exception of Denmark, Nordic tax reforms have followed a dual income tax model combining progressive taxation of labour income with a lower, flat rate taxation of capital income.

The most comprehensive reform was the Swedish 1991 "tax reform of the century" which reduced marginal tax rates very substantially (Agell et al., 1996). A similar, but slightly less radical reform was implemented in Norway in 1992. In Sweden there was further income tax relief 2006-2010. Finland and Denmark took a more incremental approach. In Finland marginal taxes were gradually reduced 1995-2005. Denmark adopted several big tax reforms in 1985 (coming into force from 1987), 1993, 1998 and 2009 (coming into force 2010-2019). In addition, there were significant but largely unfinanced tax reliefs in 2003 and 2007 (coming into force from 2004 and 2009). Since the 1985 reform, there has been no broad political compromises over tax reforms in Denmark (apart from abolition of taxation of net wealth in 1996). From 2001 to 2008 the Danish government followed a "tax stop" policy preventing any new taxes to be introduced or any existing taxes to be raised. Tax reliefs of 2003 and 2007 were eventually financed by public expenditure cuts in 2010 (but presented as a so-called economic "reconstruction plan" after the financial crisis, see below). Likewise, Swedish tax relief after the 2006 election was financed partly by welfare reforms (see below). The other Nordic tax reforms have followed the principle of (long-run) revenue neutrality.<sup>7</sup>

But let's look at the impact (Table 1 and 2): Even though the Nordic countries were latecomers, they have cut income taxes (more precisely, taxes on wages) substantially. For average workers, income taxes in Sweden and Finland are just above the EU-15 average, but far below countries like Belgium, France and Germany. In Norway and Denmark, income taxes at all wage levels are below EU-15 average. As usual, Iceland groups with the

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<sup>6</sup> By 1978, even Gunnar Myrdal criticized the high marginal taxes for inviting to tax fraud (Agell et al., 1996).

<sup>7</sup> Governments resisted the temptation to include possible "dynamic effects" in these calculations. In other words, if there *were* such effects, this would provide increasing revenues.

Anglo Saxon countries rather than with Scandinavia. The difference is dwindling, however. Those days when income taxes were high in the Nordic countries are obviously gone.

**Table 1. Average "income taxes" (taxes on wages) 2010, as per cent of gross labour costs, in selected OECD countries.**

	Single			married, 2 children, 100+67 % AW	progressivity (167% - 67% )
	67 % AW	100 % AW	167 % AW		
Belgium	49.5	55.4	60.6	47.8	11.1
France	45.4	49.3	53.2	44.3	7.7
Germany	44.9	49.1	51.5	41.4	6.6
Austria	43.3	47.9	50.4	40.0	7.1
Italy	43.6	46.9	52.1	42.1	8.5
Hungary	43.6	46.4	52.7	39.2	9.2
<b>Sweden</b>	<b>40.6</b>	<b>42.7</b>	<b>50.8</b>	<b>38.5</b>	<b>10.2</b>
Slovenia	38.5	42.4	47.3	33.8	8.8
Czech Republic	38.9	42.2	44.7	34.4	5.8
<b>Finland</b>	<b>36.3</b>	<b>42.0</b>	<b>47.9</b>	<b>36.5</b>	<b>11.6</b>
<b>EU-15 **)</b>	<b>37.2</b>	<b>41.3</b>	<b>46.7</b>	<b>35.5</b>	<b>9.5</b>
Estonia	38.6	40.0	41.2	35.5	2.6
Spain	36.4	39.6	42.5	26.6	6.1
Netherlands	33.7	38.4	42.3	32.1	8.6
<b>Denmark</b>	<b>36.7</b>	<b>38.3</b>	<b>44.5</b>	<b>33.7</b>	<b>7.8</b>
Slovak Rep.	34.5	37.8	40.2	31.2	5.7
Portugal	32.8	37.7	43.8	33.1	11.0
Turkey	35.0	37.4	40.4	37.6	5.4
<b>Norway</b>	<b>33.7</b>	<b>36.8</b>	<b>42.6</b>	<b>32.9</b>	<b>8.9</b>
Greece	34.4	36.6	41.9	35.7	7.5
Poland	33.3	34.3	35.0	30.8	1.7
UK	29.6	32.7	37.5	28.8	7.8
<b>Iceland</b>	<b>25.2</b>	<b>31.3</b>	<b>36.1</b>	<b>26.7</b>	<b>10.9</b>
Japan	29.1	30.5	33.5	25.2	4.4
USA	27.5	29.7	35.2	24.9	7.7
Ireland	23.4	29.3	39.9	21.1	16.6
Switzerland	17.8	20.8	25.0	14.3	7.7

\*) Income taxes & contributions less cash benefits as % of gross labour costs. 2009.

\*\*) Simple (unweighted) average.

Source OECD (2010c: Table I.1.)

Comparatively low marginal taxes in the Nordic countries is an even more striking feature. This was indeed the key target of Nordic tax reforms, and here we find all Nordic countries except Finland well below EU-15 average, at least for low and average incomes (table 2). For high incomes, marginal taxes in Sweden remain high, and in Denmark and Finland, they are just above EU15 average. But marginal taxes have been cut very significantly in the Nordic countries. This represents a quite radical change as compared to the 1980s. If marginal taxes has an impact on labour supply, this has indeed got a major stimulus.

**Table 2. Marginal income taxes 2010, as per cent of gross labour costs.**

	single			married, 2 children, 100+67 % AW
	67 % AW	100 % AW	167 % AW	
Belgium	66.3	66.3	69.4	66.3
Austria	56.3	59.9	41.4	59.9
Germany	55.3	59.6	44.3	57.2
Ireland	36.8	55.8	55.8	36.8
<b>Finland</b>	<b>53.0</b>	<b>54.0</b>	<b>57.0</b>	<b>54.0</b>
Italy	53.6	53.6	61.5	54.1
Hungary	52.2	52.2	67.0	52.2
France	63.2	52.0	59.7	52.0
<b>EU-15</b>	<b>48.5</b>	<b>51.5</b>	<b>53.8</b>	<b>49.9</b>
Slovenia	43.6	51.0	60.4	43.6
Czech Rep.	48.6	48.6	48.6	54.0
Spain	45.2	48.1	37.0	48.1
<b>Sweden</b>	<b>45.6</b>	<b>47.9</b>	<b>66.9</b>	<b>47.9</b>
Netherlands	49.3	47.9	50.1	47.9
Portugal	47.5	47.5	56.3	47.5
Greece	34.4	46.2	51.5	50.1
Slovak Rep.	44.4	44.4	42.8	44.4
<b>Iceland</b>	<b>43.4</b>	<b>43.4</b>	<b>43.4</b>	<b>47.8</b>
<b>Norway</b>	<b>43.1</b>	<b>43.1</b>	<b>53.7</b>	<b>43.1</b>
Estonia	42.9	42.9	42.9	42.9
<b>Denmark</b>	<b>40.9</b>	<b>42.3</b>	<b>56.1</b>	<b>42.3</b>
Turkey	42.2	42.2	47.3	42.2
UK	38.8	38.8	47.7	38.8
Poland	36.1	36.1	36.1	36.1
Japan	31.2	35.5	34.6	32.5
USA	34.4	34.4	43.7	34.4
Switzerland	24.3	27.5	34.3	28.4

\*) Definitions: See table 1.

Source: OECD 2011, table I.6.

As revealed by table 1, progressivity (as indicated by differences in average taxes for a low paid and a high paid worker) has not disappeared. More specifically, taxes have become less progressive in Denmark between 2001 and 2010 whereas there has been a change in the opposite direction in Sweden and Finland. But as regards progressivity, there is no longer any difference between the Nordic countries and the EU-15. Rather, there has been a convergence at this point.

In Denmark, tax cuts to lower incomes was partly obtained via a new deduction for people in employment, calculated as a percentage of income, but up to a limit (introduced by 2004 as an equivalent of an EITC – Earned Income Tax Credit – but more ”universal” since the deduction was for everybody). This was intended as a measure to improve incentives for employment without changing the distributional profile, but had a side effect on distribution regarding employed and non-employed people.

As mentioned, it has been a guideline for reform that marginal taxes could be lowered by expanding the tax base. This could be handled in a way that would not undermine the impact on redistribution very much. Not least, reduction of deductions of interest payment for homeowners have been a key instrument. Removing or reducing deductions does not only affect interest payments, however. It has also reduced or removed the implicit state subsidy for union membership and for unemployment insurance. This has contributed to serious problems for the trade unions. Unions for manual and routine workers have lost members quite seriously. This is not only important for power relations in society but could also affect the tradition of leaving much regulation to the social partners. In Denmark, it could jeopardize the backbone of the pension system.

### **3. Ageing, pensions and retirement**

Regarding pensions, Nordic countries are much less under pressure than most countries. As Esping-Andersen (2009: 4) puts it, "pension reform begins with babies", and due to "pro-natal" child policies, the Nordic countries have maintained high fertility rates.<sup>8</sup> This means that long-term demographic prospects are pretty good – around 2050 the Nordic countries will face the same old age dependency ratio as Japan around 2013-2015 (Goul Andersen, 2011e).

Even though long-term demographic problems are small, comparatively speaking, the Nordic countries have been very proactive in changing pension systems (NOSOSKO, 2009a,b; NOSOSKO 2009; Kangas, Lundberg & Ploug, 2010).

In Denmark this happened without any formal pension reform. Instead, a layer of fully funded labour market pensions were introduced via collective negotiations. First pillar (state) pensions were maintained in a more targeted version (Goul Andersen, 2007a, 2008, 2011a).

In the other countries (Norway to be implemented by 2011) the two-tier people's pension (with defined benefit<sup>9</sup> earnings-related supplement) was replaced by (partly funded) defined contribution schemes with social minima.

In addition, Denmark, Sweden and Finland have maintained a generous housing benefit scheme for pensioners<sup>10</sup> which should be counted as part of the first pillar (state) pensions. The Danish system is a socially balanced variant of a World Bank (1994) multipillar system which was actually introduced before the World Bank issued its recommendations

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<sup>8</sup> High-quality child care, parental leave and child benefits is seen as the source of what is sometimes described as a *Nordic fertility regime* (Andersson et al., 2009). Empirical evidence regarding determinants of fertility remain disputed. But it is generally agreed that several socio-economic determinants of fertility have reversed (Billari & Kohler, 2004; Myrskylä et al., 2009; Bloom & Souza-Poza, 2010), and most studies converge towards seeing pro-natal policies embedded in a (policy-nourished) family friendly culture as fertility-enhancing (Sleeboos, 2003; Hilgeman & Butts, 2009; Hoem, 2008).

<sup>9</sup> Pension entitlements can be based on the principle of defined benefit or on defined contribution. The latter means that entitlements are directly determined by contributions (also labelled actuarial fairness). Defined benefit means that entitlements are politically defined in a way that modifies or eliminates the strict calculation of pensions from contributions. Typically, such pensions have been defined as a fixed proportion of the wage over a certain number of years, provided that some minimum requirement is fulfilled (for instance, 30-40 years of contributions, or in Scandinavia even less).

<sup>10</sup> For Finland see e.g. <http://www.kela.fi/in/internet/english.nsf/NET/270808144314HS?OpenDocument>. For Denmark and Sweden see Goul Andersen (2007a, 2011a).

(Ploug, 2001; Green-Pedersen, 2007).<sup>11</sup> In all Nordic countries, purely individual pensions are growing as well (Kangas & Valdes, 2011; Lindquist & Wadensjö, 2011; Goul Andersen, 2011a); but in the Danish case, inequality among pensioners is not expected to increase when the labour market pensions are phased in (Government, 2005:14).

Via the defined contribution principle, pension reforms also aim at strengthening work incentives and postpone retirement. In Finland a progressive accrual rate for people above 53 years was furthermore introduced in order to discourage early retirement (Kangas, 2007: 285).

Throughout the period, Sweden has maintained the highest employment rates in the EU among 55-64 years olds, both for men and for women (73 and 67 per cent, respectively, by 2009). Norwegian figures are almost identical. Finland resorted to massive labour shedding for older workers in the early 1990s, but from 1994 to 2009, employment rates increased from 35 to 55 per cent for men, and from 32 to 57 per cent for women among 55 to 64 years olds (table 3).

In spite of a very generous early retirement from the age of 60<sup>12</sup>, Danish employment rates were higher than in Finland and in Continental Europe during the 1980s and 1990s. A reform in 1998 (fully implemented by 2004) reduced early retirement benefits for claimants under the age of 62. This contributed to lower take up of early retirement, but improvement of labour force participation rates and employment rates was somewhat slower than in Germany in particular. By 2009, employment rates among German and Dutch men between 55 and 64 years had caught up with the Danish figures. Among women, Danish employment rate remained higher (51 per cent), but by 2009, it was the lowest among the Nordic countries.<sup>13</sup> In the 1998 reform, pension age was lowered from 67 to 65 years, but this had no negative impact on employment rates for 65-66 years olds, rather the contrary.

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<sup>11</sup> Collectively negotiated occupational pensions were not entirely new. They had been introduced gradually over several decades to a large minority of workers, in particular to white collars in the public sector (Andersen & Kristiansen, 2009: 18-21, 39-47).

<sup>12</sup> Moreover, in Denmark from 1994-1996 there was access to pre-early retirement for long-term unemployed from the age of 50 (so-called "transitional allowance" until ordinary early retirement allowance from the age of 60).

<sup>13</sup> OECD data are survey based. Somewhat more reliable register-based data reveal more improvement for Denmark. From 1997 to 2009, labour force participation rates for 55-59 years old increased from 80 to 83 per cent for men, and from 62 to 78 per cent for women. Among 60-64 years olds, corresponding figures were 43 and 52 per cent for men, and 18 percentage points lower for women. See appendix table 1.

**Table 3. Employment rates (per cent of entire age group) among 55-64 years old, by gender. 1990-2009. Percentages.**

	Men 55-64 years old						Women 55-64 years old			
	1990	1994	1999	2004	2009	1994-2009	1990	1994	2009	1994-2009
Denmark	65.6	59.8	59.9	69.3	64.1	+5.3	42.4	40.2	50.9	+10.7
Finland	46.3	35.0	40.1	51.5	54.7	+19.7	39.7	32.1	56.5	+24.4
Sweden	74.5	64.5	67.1	71.6	73.3	+8.8	64.7	59.3	66.8	+7.5
Norway	70.7	69.3	73.6	73.2	72.8	+3.5	52.8	54.3	64.6	+10.3
Iceland	92.6	92.3	93.2	87.1	85.0	-7.3	78.3	77.4	76.4	-1.0
Austria	-	39.8	41.6	36.8	51.0	+11.2	-	17.9	31.7	+13.8
France	37.0	39.1	38.9	41.9	41.4	+2.3	25.0	28.1	36.7	+8.6
Belgium	34.3	33.0	35.1	39.3	42.9	+9.9	9.4	12.4	27.7	+15.3
Germany	52.0	47.5	48.0	48.8	63.8	+16.3	22.4	24.5	27.7	+3.2
Netherlands	44.5	40.7	48.8	56.4	61.7	+21.0	15.8	17.5	43.6	+26.1
UK	62.4	56.6	59.4	65.4	66.1	+9.5	36.7	38.5	49.3	+10.8
Switzerland	85.2	79.1	78.9	76.7	77.1	-2.0	43.5	45.7	59.8	+14.1
USA	65.2	62.6	66.1	66.0	65.2	+2.6	44.0	47.0	56.4	+9.4
OECD	62.2	59.2	60.8	61.5	64.4	+5.2	33.5	33.9	45.1	+11.2

Source: OECD Employment Outlook 1999, 2004, 2010.

In addition, all Nordic countries have been heading towards automatic adaptation of retirement to longevity. In Sweden, Finland and Norway, contributions are fixed, and pensions are adjusted downwards in accordance with improvements of life expectancy by a special formula.

In Denmark, the same happens automatically for the labour market pensions as they are fully funded, defined contribution pensions. Pension funds have to adjust calculations of annual pensions each year in accordance with trends in mortality. As regards public pensions in Denmark, age brackets of pension and early retirement were fully indexed to life expectancy for 60 years olds, taking 1979 as baseline (this was decided in a broad political compromise 2006, the so-called welfare reform). Hence, pension age in Denmark is expected to be at least 70 years for people born after 1971. Early retirement is changed correspondingly, but 55 per cent deduction for pension income makes it gradually less attractive as labour market pensions are phased in (Goul Andersen, 2007a). By 2011, the duration of early retirement was reduced to three years, the new age brackets were phased in earlier than previously decided, and entitlements were reduced even more by deduction for pension assets. De facto, the early retirement scheme was nearly abandoned, and people are given the opportunity in 2012 to withdraw their contributions 1999-2011.

In short, the Nordic countries have acted quite radically on the challenge of ageing. Increasing longevity will affect the size of pensions, retirement age, or both. There is uncertainty about the effects as there are many pathways to retirement, but in order to avoid deterioration of retirement income, people will have to work longer if they are able to do so.

#### 4. New target groups for employment efforts

Efforts to increase the labour force have not only addressed the issue of retirement. There has also been a significant extension of employment efforts to groups that were previously given low priority: The disabled, the sick, and long-term social assistance clients. Besides, special exemptions for elderly unemployed workers have been removed. Finally, the Nordic countries have put much more emphasis on labour market integration of immigrants.

In many countries the number of *disability pensioners* has grown. This was particularly outspoken in Norway where figures increased from 236.000 in 1995 to 339.000 in 2008 (NOSOSCO 2009a: 171; Øverbye, 2006).

But high figures around 10 per cent of the working age population (OECD, 2010:103,134,145,162; <http://dx.doi.org/10.1787/786611566183>) were a source of concern in all countries. A large number of measures were taken to reverse the trend. All four countries have underlined that disability pension should only be granted on the basis of medical criteria, and only as a last resort. All countries have experimented with enabling people to take a job and have a "sleeping pension" meanwhile, or with granting disability pension on a temporary basis. In Sweden, the name "disability benefit" was even formally abolished by a reform (2003) in favour of an "activity-and sickness benefit" (NOSOSCO, 2004; Riksrevisionen, 2005).

The most comprehensive changes in rules and procedures were introduced in Denmark in 1998 and onwards alongside the ideas of an "inclusive labour market" (OECD, 2003: 129; Bengtsson 2009; Bredgaard, 2004), "corporate social responsibility", and the instrument of "flexible jobs" as an alternative to disability pension for people with reduced work capacity.<sup>14</sup> From 1998, application for disability pension should only take place after all possibilities of treatment, activation and rehabilitation had been considered. This was embodied in a disability pension reform adopted in 2001 and implemented in 2003, based on the principle of focussing on remaining resources rather than on lost capacities. These programmes have enjoyed some success, and after a slow start the number of people working in permanently subsidized "flexible jobs" has grown significantly. Even though a flexible job is considered a last resort before disability pension, some deadweight losses are entailed, but at least the growth in the number of disablement pensioners was stopped in the 1990s, in spite of a considerable growth of the most vulnerable age groups (45-64 years old).

By 2010, the growth in the number of disablement pensioners seems to have stopped in all four countries.<sup>15</sup> It is noteworthy that the countries did not resort to lower pensions (which are comparatively generous) in order to improve work incentives. Nor did the systems converge. In Denmark, disability pension is a flat rate universal benefit accessible regardless of employment record whereas benefits are earnings-related in the other countries (NOSOSCO 2009a: 169; Blekesaune et al., 2010). As supplementary compensation is typically included in Danish labour market pension agreements, outcomes are not that different. But it remains that the Danish scheme is the most generous for people with low wages (or no income), and benefits were furthermore improved, both by the 2001 reform (for a single person, pension is roughly equal to maximum unemployment benefits), and by new

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<sup>14</sup> Flexible jobs typically allow people to work shorter hours and/or with less demanding tasks while still maintaining an ordinary wage following collective agreements, and in principle maintaining the same rights as ordinary employees. The subsidy is normally 50-66 per cent.

<sup>15</sup> As pointed out by Hytti (2006), comparisons are difficult as sick, disabled and unemployed overlap; differences over time or between countries may reflect political decisions and administrative praxeses.

supplements for some of those who remained under the old rules. Even though one could imagine that restricted access to disablement pensions would mean higher take up of voluntary early retirement, Danish and Norwegian figures do not indicate any close correspondence.

The next target group has been long term *sickness benefit* recipients. As regards sickness benefits, this has been considered a problem by itself. Norwegian and Swedish figures have been exceptionally high (OECD, 2010:162). Both countries have experimented with longer duration of employers' responsibilities as an attempt to improve incentives, but seemingly with few results. In Norway (and more recently in Denmark), increasing use of sickness benefits has been considered a corollary of improved employment as more people with health problems become employed. This may have something to it, but declining incidence of sickness in Sweden since 2000 when employment has mainly improved does not seem to confirm this interpretation.<sup>16</sup>

At any rate, the most important policy concern has been to prevent marginalization by early intervention. By 1997, Denmark was the first country to oblige municipalities to intervene after eight weeks of sickness and elaborate an action plan. This may have inspired to similar efforts in Norway some years later. The Danish rules were tightened under the Liberal – Conservative government after 2001, stressing not only the shortest possible road to employment, but also the use of activation, further consolidated from 2009 by irresistible economic incentives for municipalities to force sickness benefit recipients into activation (during activation reimbursement increases from 35 to 65 per cent). This has led to some instances where seriously ill people have been pressured into activation.

*Social assistance clients* "with other problems than unemployment" is the third broad group which has been included among the target groups of activation and employment efforts in general. In Denmark the social assistance scheme provides one of the few instances where there has not only been a tightening of "conditionality" (Clasen et al., 2001), but also some significant cuts in benefit levels. The latter measures were adopted with the support of the "welfare chauvinist" and anti-immigration Danish People's Party, and they were explicitly targeted at non-western immigrants (Goul Andersen, 2007b). From 2002, this included a substantially lower social assistance<sup>17</sup> for immigrants arriving from non-EU countries (labelled "start assistance" or "introductory benefits"). Next, it included cuts in social assistance for some family types in order to "make work pay" in any instance (this was actually adopted in a broad political compromise including the Social Democrats in 2002). And moreover, it included an "integration package" in 2005 with a requirement that married people in workless households should have ordinary employment for at least 300 hours over a two-year period in order to maintain the right to social assistance (Christensen, 2007).<sup>18</sup> By 2008, this was increased to 450 hours and extended to all married social assistance recipients.<sup>19</sup> The work requirement applied to four out of five "matching

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<sup>16</sup> Similar alternative explanations for Norway are dismissed in Blekesaune & Dale-Olsen (2010).

<sup>17</sup> In Denmark social assistance remain means-tested, but entitlements were pegged to maximum unemployment insurance in the 1980s. By the mid-1990s it was fixed at 60 per cent for a single person.

<sup>18</sup> Even though the reform carried the label "integration package", the rules applied to all citizens regardless of ethnicity or citizenship. Like in 2002, however, there were explicit calculations indicating to what extent the rules *de facto* targeted non-western immigrants (Goul Andersen, 2007).

<sup>19</sup> This was explicitly a compensation to the Danish People's Party following the so-called "Metock verdict" of the European Court of Justice which could facilitate immigration.



groups”, excepting the fifth matching group (some 20 per cent) considered completely unemployable.<sup>20</sup>

These types of policies towards immigrants were the exception, however, even in a Danish context. Generally speaking, immigrants are well included in the universal welfare state (Goul Andersen, 2007). However, the ”active line” or ”work line” of labour market policies in the Nordic countries have *targeted immigrants* to a larger degree than previously, and new policies have been developed to ensure integration and enhance labour market chances. This was been stimulated e.g. by OECD statistics revealing that the Nordic countries exhibited unusually large employment and unemployment gaps between immigrants and natives, as compared to other European countries (Mogensen & Matthiesen, 2000, 2002; Coleman & Wadensjö, 1999; Brochmann & Hagelund, 2010: 314, 362-63).<sup>21</sup>

Partly as a response, all four countries developed relatively comprehensive *introduction programmes* for immigrants – mandatory in Denmark, Norway and Finland, voluntary and decentralized in Sweden (Djuve, 2011; Djuve & Kavli, 2007: 39-56; Breidahl, 2008; Brochmann & Hagelund, 2010: 342-350; Sarvimäki & Hämäläinen, 2010) – including language course and general information about the society. The Swedish programmes were developed from 1991, Denmark and Finland followed in 1999, and Norway in 2004. Empirical tests in Finland (exploiting the ”natural experiment” situation) indicates that the impact of the introduction programme *as such* on labour market performance was considerable (Sarvimäki & Hämäläinen, 2010). Evaluations comparing individual elements generally find positive, but less certain effects (Djuve & Kavli, 2007: 57-70).

The introduction programmes are *de facto* quite similar (Djuve & Kavli, 2007: 85-90), and it has been claimed more generally that the Nordic differences as regards integration policy is a matter of ”*practical convergence*” and ”*discursive divergence*” (Hedetoft, 2006). This is overstating the point (Brochmann & Hagelund, 2010: 359). Denmark really has been more inclined to impose Danish norms and use the stick, Sweden has been more inclined to accept diversity and use the carrot, with Norway falling in-between. Still, it remains that all four countries have put much more emphasis on labour market integration, and on duties, than they did previously.<sup>22</sup>

It is noteworthy that employment rates for non-western immigrants have increased considerably, and the employment/unemployment gaps as compared to other countries have narrowed (Brochmann & Hagelund, 2010: 350, 362; Lassen, 2009). From a lowest point in 1996 to 2008, employment rates among female non-western immigrants doubled, from about 25 per cent to about 50 per cent (Danmarks Statistik, 2009: 66-67). Integration pro-

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<sup>20</sup> The Social Democrats had originally agreed in a political compromise, but chose the opportunity to exit when it was operationalized into a more far-reaching law than envisaged.

<sup>21</sup> In political discourse, this has often been interpreted as indicator of disincentives of the welfare state; however, the strong emphasis on humanitarian integration and, correspondingly, the heavy weight of refugees among immigrants, is the main explanation of the difference (Christensen, 2009).

<sup>22</sup> It also remains that in addition to the very visible and partly symbolic ”tough” measures, the Danish Ministry of Integration has supported a huge number of projects aimed at improving conditions of life and integration for immigrants. Indeed an integration effort seeking to coordinate different policies could be considered the most ”integration-friendly”, but in the Danish case the symbolic aspects have appeared most important to the political parties. Ironically, the pro-immigration Radical Liberals in 2011 demanded that the Ministry of Integration should be abandoned because it was ”a wrong signal”. With the same argument, the Danish People’s Party criticized the decision. From an interest perspective or from an ideological perspective, one should expect the very opposite preferences.

grammes and other policy initiatives may have played a role, but increasing average duration of residence and economic prosperity are undoubtedly more important. It is also worth noting that work ethic among non-western immigrants is very strong; they even follow the unusually strong non-financial employment commitment in the Nordic countries (Svallfors et al., 2001; Goul Andersen, 2008). Finally, it is noteworthy that among second generation immigrants women are catching up very fast as regards educational attainments (Tranæs, 2008) whereas inequality is to a larger extent reproduced as far as men are concerned.

Even though immigration has implied net costs rather than net benefits – at least in Denmark (Wadensjö & Orrje, 2002) and probably in the other countries as well – it has not undermined the welfare state economically. Whether this is attributable to policy adjustments remains a matter of dispute. Nor has immigration undermined support for the welfare state. Even for social assistance programmes targeted increasingly at immigrants nothing indicates falling solidarity (Goul Andersen, 2010a). In Denmark where immigration was exploited as an issue even by the "conventional" right parties (Green-Pedersen & Krogstrup, 2008), it contributed to the largest parliamentary majority to the right since the end of the first World War in the elections of 2001, 2005 and 2007, simultaneously with the highest support ever measured for the welfare state. This is tantamount to welfare chauvinism, and in Denmark there have been a few tendencies towards a dual welfare state. Even though a logic of party competition<sup>23</sup> served to grant disproportionate influence to the anti-immigration Danish People's Party, the path towards a dual welfare was always highly constrained. Even in Denmark such trends were largely limited to measures aimed at keeping low-qualified immigrants out.<sup>24</sup> But policy changes did tend to reinforce pov-

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<sup>23</sup> The Danish People's Party has been critically dependent on keeping the issue alive and has skilfully sought to invent ever new ("socially respectable") immigration issues. It became a standard operating procedure to require concessions in this field in exchange for its support for government's overall policies. As they were mutually dependent, both the Danish People's Party and the Liberal-Conservative government were willing to compromise. As regards the Social Democrats, their basic strategy under the leadership of Helle Thorning-Schmidt was to accept most proposals. Seeing immigration policy as an issue where the party can only lose, the party strived to make it a non-issue by avoiding conflict. Even the Socialist People's Party submitted to this logic. Basically, the Social Democrats followed the same logic as the Liberal prime minister Anders Fogh Rasmussen did on welfare, thereby reinforcing voter attitudes to which they are ideologically opposed. In 2007 a new protest party, the *New Alliance*, gained sudden and enormous support among centrist voters by protesting against the political influence of the Danish People's Party.

<sup>24</sup> Somewhat erroneously, the Danish People's Party tried to extend anti-immigrant policies to families with three children or more, based on the impression that immigrants have large families. This was even built into a small compensation for families with children in the 2009 tax reform where the party was keen to secure that compensation was only given for two children (Jønsson & Petersen, 2010: 206). As the compensation was only 40 € per child, the issue did not gain public attention, but the efforts to target even such small amounts reveals that the party was determined to find any target within reach. In 2010 the party managed to extend this effort to an internationally exceptional maximum for cash benefits for children eliminating child benefits for the third and subsequent children (Goul Andersen, 2010). This was counterproductive: In the first place, even though there is a higher proportion of families with three or more children among immigrants, immigrants constitute a small minority among such families. Not only did the party fail to get the calculation of percentages right; it had also ignored that fertility among immigrants declined rapidly and reached the same level as among native Danes by 2010. It is telling, however, that there was no problem to reach agreement with the government in May 2010. Only in face of public protest, the rules were re-negotiated a couple of days after the agreement had been presented. The example reveals that there were few constraints in terms of principles for the Danish People's Party, nor for the government. And the new rules were only modified, not abandoned.

Still, social protection did not move straightforwardly towards dualism. Fundamental constraints to dualism include the Danish constitution, European Union law, and other international conventions. The scope of the latter has expanded, and it is difficult to imagine how the development could be pushed much further (Goul Andersen, 2007). Finally, it should be noted that immigrants cannot be cut off from social rights to any im-

erty and in particular child poverty problems for a minority of immigrants, and relative poverty among immigrants is more widespread in Denmark than in Sweden (Sainsbury, 2005). After the defeat of the Liberal-Conservative government in the 2011 election, however, the "poverty measures" referred to above were announced to be abandoned, but at the time of writing, no decisions had yet been made.

In addition to including "new" groups for employment efforts, it should be underlined that nearly all labour shedding policies of the 1990s or earlier have been reversed. In Finland, schemes from the crisis encouraging older workers to retire were gradually phased out. In Denmark, it was decided already in 1994-1995 to scrap a sabbatical leave and to abolish a "transitional allowance" enabling long-term unemployed to retire from the age of 50 (both schemes were introduced in 1992 and extended/improved in 1993). Educational leave was terminated a few years later, in favour of a "work first" – approach. Finally, the right for elderly workers in Denmark to maintain unemployment benefits indefinitely, and to be exempted from activation, was cut off bit by bit, and eventually fully abolished, in the early 2000s. As a result, Scandinavian employment rates for 55-64 years olds are among the highest in the EU, even for men (OECD 2010b).

## **5. Labour market and social policy: Administrative integration**

Even though Sweden is famous for its long tradition of active labour market policy (ALMP), and Norway introduced the "work line" in 1992, Denmark became a forerunner in the dissemination of ALMP to the EU. Within a couple of years after a big reform in 1993, Denmark became the country with the highest spending on ALMP, at least for a while. The Danish reform was introduced after a change in problem definition towards seeing unemployment as overwhelmingly "structural", strongly inspired by the neoliberal economic ideas later to be compiled in the OECD (1994) *Jobs Study*. However, among the causes, insufficient qualifications and regional mismatches was emphasized more than high minimum wages, disincentives and poverty traps. And the solution was to improve employment through qualification efforts and elaboration of "individual plans of action" decided jointly by the unemployed and the employment officer. The regionalized state administration, under the responsibility of corporatist regional labour market boards in 14 counties, should ensure that activation was tailor-made to regional supply and demand for labour power.

Activation was also introduced for social assistance recipients, but like in the other Nordic countries, policies for the non-employed were divided between state employment services and the municipalities. The state (and the unemployment insurance funds) was responsible for the "ordinary" unemployed, those who are eligible for unemployment benefits. Efforts for people receiving social assistance (and for other non-employed) was the responsibility of the municipalities. Later, the idea of an individual (job-seeking) plan was also intro-

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portant extent in a universal welfare state with a strong emphasis on social services. By 2010, for instance, coverage with child care was almost the same among immigrants as among the native population. Still, it is revealing that parties were willing to go extremely far if necessary to build a majority, if it did not involve voter punishment. This may give disproportional influence to irregular small parties which can control the majority. By 2010 a small ultra-liberal party called Liberal Alliance uttered ideas about excluding foreigners from Danish welfare by making welfare rights dependent on contributions to as large extent as possible. This belonged to the category of odd ideas in the summertime season, but initially it was in fact received positively by representatives of the Liberal Party and the Danish People's Party. If the party had become essential for majority formation, there might have been a certain potential for more far-reaching change.

duced in Norway and Finland (Øverbye, 2007; Aho, 2007), and activation for people receiving social assistance was also made compulsory in Sweden from 1998 (Lindquist, 2007). In Finland, activation has also been applied to both categories, but on a voluntary basis (Aho, 2007).

In Denmark and Norway, however, the extension of employment efforts to new groups was also accompanied by administrative integration – and most radically so in Denmark. The Danish government's intention to move towards a one-string system was explicitly declared in the 2002 labour market reform ("More people to work" – the fourth big reform, adapted in a broad political compromise like previous reforms in 1995 and 1998).<sup>25</sup> As activation and availability requirements for recipients of unemployment benefits and social assistance was harmonized, the reform prepared the ground, but since the early 1970s similar ideas had repeatedly been killed, almost before they were pronounced.

A municipal reform 2004-2006, however, provided a window of opportunity to collapse the two Danish administrations in municipal job centres (from 2007). It was a hybrid model since two separate administrative hierarchies were maintained inside the building, probably because the government sought to include the Social Democrats in a compromise. This effort was in vain, however, and as part of the negotiations over the 2009 budget<sup>26</sup>, a narrow political majority decided in 2008 to take the full step and create a unitary municipal administration. Moreover, the decision entailed a thorough reform of financing as from August 2009 (see below).

In Norway, a somewhat similar reform (called the NAV-reform) was agreed upon by a broad political majority in 2005 and implemented 2006-2011 (Øverbye, 2007; Fimreite & Hagen, 2009). It involves a merger between the National Employment Directorate and the National Social Insurance Directorate under a new Ministry for Labour and Social Integration. Social assistance remains a municipal responsibility, but the municipalities must make contracts with the new NAV agency and be located in the same building – a "forced cooperation" (Øverbye, 2007) resembling the intermediary Danish model. Both countries were inspired by job centre reforms in the UK and the Netherlands (Carstensen & Pedersen, 2008a,b), but these reforms were not emulated; rather, ideas were sampled and translated to a national problem context and political context. By the same token, the differences between Denmark and Norway represents, *inter alia*, the focus on potential disability pensioners in Norway.

Sweden and Finland have also encountered that there are groups with problems that require cooperation between different administrations and advisors. But here the approach has been to establish joint administrations only for targeted groups ("co-operation centres", "labour force service centres", often on a regional basis (Lindquist, 2007; Aho, 2007). The means are in a sense diametrically opposite – mainstreaming in the Danish case, differentiation and specialization in the Swedish and Finnish (with Norway falling in-between) – but a common denominator is the attempt to adjust the administration to a broadening of the target group for employment efforts.

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<sup>25</sup> The 1993 reform (implemented from 1994) was adopted only with the votes of the Social Democrats and the other government coalition parties.

<sup>26</sup> Erroneously the decision was not only made without any public debate; according to a participant the issue was not even discussed during the negotiations (Breidahl & Seemann, 2009: 195).

At least in the Danish case, there are also significant interest conflicts involved, however, and the reform fits into a broader pattern of changes that could have more of a transformative character. Not surprisingly, the Danish reform was criticized by the social partners who would inevitably lose influence. Under the new system, the social partners are granted an advisory role both at the municipal and regional level. This may entail some de facto influence (Damgaard & Torfing, 2010), but substantially less control. Moreover, government came in a position to exert much control over the day-to-day administration of the municipalities.

The Danish reform was legitimized by the provision of "one entry point" for everybody, by the provision of "individualized" treatment, and by the argument that problems are basically the same for people receiving social assistance and unemployment benefits (Carstensen & Pedersen, 2008a,b). However, the latter argument was much less valid empirically when the reform was adopted than it had been 15 years earlier during mass unemployment (Harrits & Goul Andersen, *forthc.*). By 2007 the differences between "ordinary" unemployed and people receiving social assistance in terms of health and other problems were exceptionally large. The job centre reform was criticized by all independent experts in the field. Partly because of insufficient coordination with regional labour market needs, but more because it was argued that individualization was an illusion. Empirical studies rather indicate a re-bureaucratization and more standardized treatment (Breidahl & Seemann, 2009).

The most severe criticism was launched against the new financing of unemployment benefits.<sup>27</sup> In particular, it was argued that the performance-dependent reimbursement system provides counter-productive incentives. The Job Centre reform included a reform of financing where municipalities became responsible for payment of benefits etc. but were reimbursed according to performance in terms of employment and activation. As municipalities do not have much control over employment, they were induced to focus on activation. More specifically, municipalities were induced to send everybody to the cheapest possible activation courses, regardless of efficiency, in order to get a higher reimbursement (Nørgaard, 2009). This was criticized for going diametrically against the OECD recommendation: "A shift towards greater investment in training, especially linked to local labour market needs, is warranted in the present circumstances." (OECD, 2010b: 12). As criticism was accumulating, the minister of employment modified the incentive structure significantly in 2010, but it remains to be seen how the government will adapt the system to a situation of enduring high unemployment.

These problems are addressed further below, in a more general evaluation of the scope and impact of recent changes in Denmark and Sweden.

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<sup>27</sup> Nothing has changed as regards the Ghent model of unemployment insurance. Money is provided partly by insurance contributions, partly by the state. But municipalities have also become co-financing. The municipality is responsible for payment of benefits and is reimbursed (more or less) according to performance indicators.

## 6. Social security, activation, and "work first"

Unemployment policy always involves a balance between rights and duties, and the protestant Nordic countries with their strong work ethic have traditionally pursued quite tight policies. This also used to be a very significant trait of the Swedish active labour market policy (Jensen, 1989, 1990). However, the balance can change, and when Denmark was the first Nordic country to enter enduring mass unemployment in the late 1970s, it became a strong priority to make the unemployment insurance system as inclusive as possible. When activation was introduced around 1980, the main purpose was to extend the duration of unemployment benefits.<sup>28</sup> Through participation in a job offer programme of 6-9 months, it was possible to requalify twice for 2½ years of unemployment benefits. This situation was an extreme that does not really find a counterpart in the other countries, even though labour shedding for elderly workers during the Finnish crisis bears some resemblance.

Whereas activation in this period was mainly a matter of protection of social rights, improving qualifications was the classic purpose of activation in Scandinavia, including Denmark after the big labour market reform in 1993/1994. After this reform, unemployment in Denmark was unexpectedly halved from 1994 to 1999 – allowing an escape from two decades of mass unemployment. Nationally and in the EU, Danish ALMP was celebrated as a great success. However, refined measurement (fixed effect- and survival models) soon revealed that micro-level effects were small, at best (Arbejdsministeriet, 2000; Det Økonomiske Råd, 2007).

This supported a wave of strengthening duties ("conditionality") which was observable in most European countries (Clasen, Kvist & van Oorschot, 2001; Clasen, 2005). In Scandinavia, conditionality served as an alternative to lower generosity (Kohnle-Seidl & Eichhorst, 2008). Denmark moved through the entire scale from a most lenient approach by the early 1990s towards a quite demanding one after 2000 (Hasselpflug, 2005).

The idea of using activation partly as a sanction or as a stress instrument has been applied in several countries, and there are indications that it does serve to move people out of benefits, but not always into stable employment (Kohnle-Seidl & Eichhorst, 2008: 440). Education, on the other hand, was given less priority, and in the Danish 2002 reform, a *work first approach* was underlined by renaming the "individual plan of action" into a *job plan*. Most importantly, conditionality was increasingly taken seriously after 2001. And the idea of the shortest possible road to employment was increasingly *implemented* in actual practice, not least after the job centre reform (Goul Andersen & Pedersen, 2007; Larsen, 2009). This comes close to an instance of incremental but transformative change that is described as *conversion* (Streeck & Thelen, 2005) in the literature about policy change. Besides, access to educational leave for unemployed had been abolished already around 2000, and shortly after the entire educational leave scheme was terminated.

At the same time, duration was reduced in a number of labour market reforms from 8-9 years until 1993 to 4 years as from 1998 (although gradually implemented). This was more in line with the (slightly shorter) duration in the other countries, although in the Swedish system, re-qualification through activation could continue indefinitely. From 2000, Denmark appears to have taken the lead among Nordic countries as far as strictness is con-

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<sup>28</sup> There were some attempts to activate young people as well (so-called youth guarantee). At that time, Danish policies targeted at the young was also very inclusionary, as far as possible enabling young people to enter the unemployment benefit system rather than leaving them as social assistance recipients.

cerned. In accordance with a welfare reform of 2006 (another broad compromise), surveillance of the unemployed increased significantly. This included repeated meetings and a duty to check and update a profile on the internet every week. Documentation of active job search was tightened (temporarily operationalized as four applications per week), and the unemployed should be able and willing to accept a job without notification the following day.

Even though it is hardly an exaggeration to claim that the largest Nordic variation is found not between countries but in Denmark over time, it remains that policies have also changed in Sweden. Like in Denmark, there has been a significant decline in the weight of education (Finanspolitiska Rådet 2009: 168-169) which started already before the bourgeois coalition government took over in 2001. Besides, duration and generosity has been changed considerably (see below). Finally, unlike in Denmark, there are “waiting days” in the other Nordic countries – for instance, in Sweden, benefits are only received after a five-day period.

As regards activation there has been a lot of debates about whether this should be interpreted as “workfare”, even in a highly disciplinary version, or whether it should be seen as an instrument to improve human resources (Larsen, 2009). In fact, it can be both (Barbier, 2004; Barbier & Ludwig-Mayerhofer, 2004; Lødemel & Trickey 2000) – and it should perhaps be conceived as a continuum (Goul Andersen & Pedersen, 2007). However, the impact of such reforms depend very much on the economic situation. What could lead to social marginalization in a context of deep recession, may be harmless in a situation of full employment.

Indeed, both in Denmark and Sweden, economists have advocated a business cycle dependent labour market policy (Arbejdsmarkedskommissionen, 2009; Søndergaard, 2009; Finanspolitiska Rådet, 2009). In the reports just mentioned, the keyword of business cycle dependency refers mainly to duration of benefits, but it could also apply to the kind of activation measures that should be prioritized. It is noteworthy how education and other more long-term programmes for the unemployed were squeezed by the economic upturn in Denmark. Instead, priority was given to “work first” initiatives (which may include, e.g., job search courses).

Until 2008, increasing conditionality in Denmark could be interpreted as an adaptation to a situation where mass unemployment had been succeeded by widespread shortage of labour power. Arguably, recent changes in ALMP actually implies a change in citizenship – not only a changed balance between rights and duties, but also an right and duty to be *active* (c.f. the notion of “active citizenship” in Hvinden, 2007; and in Goul Andersen et al., 2005). With a wording that is less a break with the past, one could ideal-typically speak of a change from right to cash benefits to a right to a job.

However important this may be, it remains that in terms of *outcomes*, the reforms were relatively harmless. It remains to be seen whether policy changes could be reversible if outcomes gradually become more harmful. As stated in the OECD recommendation above, the obvious priority in a situation of relatively high and enduring unemployment would be a return to increasing emphasis on education. The changes implemented 2006-2010 were prepared during prosperity and may be counterproductive, even economically, in a situation of enduring crisis. Not surprisingly, the requirement of four job applications per week has been withdrawn, not least after protests from employers who got far too many unseries-

ous applications. But other changes seem less reversible.

This raises the question if recent changes in Denmark are more enduring and transformative – unlike the changes during the very long crisis in the 1980s and early 1990s which sometimes involved quite radical retrenchment, but left the principles or foundations intact (Goul Andersen, 2000). The question of transformative change is also relevant in relation to the conditionality presented above, but it applies in particular to recent changes in unemployment insurance in Sweden and Denmark which are described below.

## **7. Unemployment insurance reforms in Sweden and Denmark – transformative change?**

The most profound changes between 2000 and 2010 took place in the Swedish and Danish unemployment insurance system. Ironically, a main reason for the defeat of the Swedish Social Democratic government in 2006 was its loss of “issue ownership” over employment (Oscarsson & Holmberg, 2008; Martinsson, 2009). The new centre-right coalition aimed at a mandatory unemployment insurance system instead of the Ghent system, but at least until 2010, it ended up reforming the latter. The Ghent system reforms of Denmark and Sweden since the 1980s represent an interesting case of quite transformative changes via small, incremental reforms.

Initially, the Ghent system of state subsidized voluntary unemployment insurance was a *liberal* system that represents a certain privatization of social risk as compared to a mandatory system.<sup>29</sup> Better-off people with low unemployment risk could opt out, and people with high risk of unemployment initially had to pay the highest contributions. In a compulsory system, by contrast, nobody escapes payment, and better-off people pay the highest contributions. One could wonder, then, what left the Ghent system intact in three of four Scandinavian (“Social Democratic”) welfare states.<sup>30</sup> The answer is quite straightforward: The system was maintained for strategic reasons since it provided an incentive for trade union membership (Rothstein, 1992). If the unions could maintain control of the unemployment insurance (UI) funds and maintain *de facto* coupling of UI and union membership, there was a significant benefit in terms of high unionization. In Norway where the Ghent system was given up in 1938, union density is currently substantially lower than in Sweden, Finland and Denmark.

Apart from the strategic benefits, it would be obvious for the Social Democrats – as they did in Norway – to opt for a compulsory system in order to ensure adequate coverage and fair distribution of the costs. However, the Ghent model was open for “Social Democratization”. Logically, the main formula for such a transformation was to *have the state pay the expenditures*. This is tantamount to a collectivization of risk. When the state pays the bill, the *next step is to make benefits as generous as possible* – not only in terms of compensation, but also in terms of duration and “conditionality”. In the “old days” when members paid the lion’s share of the costs, incentives for the unions were far less straightforward (Due & Madsen, 2007).

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<sup>29</sup> Unemployment insurance (the Ghent model) was introduced in Denmark by 1907; in Finland by 1917; and in Sweden as late as in 1934 (Kangas & Palme, 2005: 299). Norway was the first mover in 1906, but here the Ghent model was replaced by a mandatory system in 1938 because funds had frequently been suffering from financial problems and even bankruptcy in the 1920s and 1930s (Kuhnle, 1978; Hatland, 2010: 42-43; Carroll, 2005: 64-65).

<sup>30</sup> Unemployment insurance in Iceland (and the Faroe Islands) is mandatory.



This formula was indeed followed. Most significantly in Denmark where UI was a rather 'liberal' system by the mid-1960s, partly due to insufficient indexation. This changed in a series of reforms 1967-1972. First, the reforms included a fundamental change in the principle of financing (1967): From now on, UI members should pay a, fixed, uniform contribution (mainly for administration). The state took over the marginal risk of unemployment, both regarding variation between UI funds and regarding the aggregate level of unemployment in society (Due & Madsen, 2007: 232-236). The compensation rate was raised markedly to 80% of previous earnings in 1970, and again to 90% in 1972, alongside a substantial increase in the ceiling (Jørgensen, 2007:165; Jonasen, 2003: 153).

These reforms became extremely important when Denmark was hit by mass unemployment from the mid-1970s. *De facto*, benefits were mainly paid by the taxpayers, and the system was extremely generous (Goul Andersen, 1996). Duration was *de facto* extended to 8½-9 years.<sup>31</sup> Entrance to membership was extremely open. In 1979, the introduction of a voluntary early retirement allowance from the age of 60 added another incentive for membership. Sweden and Finland followed a similar course (Lind, 2009: 516) – but slightly less generous: There was no voluntary early retirement on top of the benefits; duration was shorter, and conditionality was stronger than in Denmark. In return, member payment was even lower. Roed (1999) estimated that in the mid-1990s, members financed some 20 per cent of the costs in Denmark, 5 per cent in Sweden and Finland.<sup>32</sup>

#### *Transforming the Ghent system into a liberal system (re-commodification)*

However, a Ghent system is also open for *transformation back to a liberal system*, and the formula for this is equally simple:

- break union monopoly
- increase members' contributions – via contributions, or indirectly via lower tax deductions
- make members' contributions dependent on unemployment risk
- make benefits less generous (lower compensation, shorter duration etc.)
- make benefits more conditional on work & mobility requirements etc.

As such reforms improve incentives and/or save money, they may also be attractive from an economic point of view (even though economists would also be concerned about coverage, and about impact on distribution in society; see e.g. Swedish Fiscal Policy Council – Finanspolitiska Rådet, 2009: 154-205). Whether governments' economic or political motives were the strongest, is outside the scope of this chapter. But recent Danish and Swedish reforms have followed a predictable pattern in accordance with the sketch above, and in particular the Swedish government 2006-2010 managed to carry through quite a few of the reforms that had to be given up by Danish governments in the 1980s.

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<sup>31</sup> Requalification for another 8½ years required 6 months of ordinary (not subsidized) employment.

<sup>32</sup> From 1973 to 1974, state financing rose from 62% to 87% as expenditures quadrupled, due to rising unemployment, and due to a 20% increase in the ceiling of the benefit (Jørgensen, 2007: 174; 417).

### *Breaking union monopoly*

When a Liberal-Conservative government took over from the Social Democrats in Denmark by 2001,<sup>33</sup> it immediately enabled new unemployment insurance funds to be established and allowed them to compete for members across traditional union/skill borderlines.<sup>34</sup> New unemployment insurance funds were formed, and some old funds – including funds for self-employed (established in the 1970s) – started to compete openly for members. This was not only a frontal attack on the unions but also an element in the government's "consumer choice" / "provider competition" formula for modernizing the public sector.<sup>35</sup> But a weakening of union power was welcomed.

In Finland, a slightly similar opportunity was opened in 1992 (Loimaan kassa - YTK), and in Sweden by 1998 (Alfa-kassa). Both of these funds were introduced by Social Democratic governments to pick up people without unemployment insurance, and even though the Finnish YTK was "invented" under a Conservative government, it was not perceived or intended as a threat to the union-controlled funds (Böckerman & Uusitalo, 2006). In all three countries, however, these alternatives have gained weight (Lind, 2009; Due & Madsen, 2007: 237).<sup>36</sup> <sup>37</sup> It should be added, though, that in Finland a significant part of the members were outside the unions even before that time (Lind, 2006; Due, 2009; Kjellberg, 2009).

### *Higher contributions: Open and hidden measures*

Denmark was the pioneer as regards higher contributions. In 1983 the bourgeois government nearly doubled members' contribution to unemployment insurance, and employer contributions were more than tripled (Direktoratet for Arbejdsløshedsforsikringen, 1983). A series of minor increases followed 1984-1987, both for members and for employers.<sup>38</sup> Even a Social Democratic government exploited the opportunity to increase contributions discretely in 1998/1999 when contribution to voluntary early retirement pension was formally separated from unemployment insurance.<sup>39</sup> Altogether, this has relieved the state of a financial burden. By 2009, the lowest contribution in Denmark was around 50 € per month.<sup>40</sup> In 2008 when unemployment was extraordinarily low, the state even made a small profit on unemployment insurance: Contributions exceeded costs of unemployment benefits.

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<sup>33</sup> Earlier, the Conservative – Liberal parties had secured the existence of a Christian unemployment insurance fund 1929-1936, and again from 1950, even though it did not follow the skill / industry division which was otherwise required at that time. The fund was unimportant until the 1990s, however.

<sup>34</sup> An idea to establish a state driven, politically neutral unemployment insurance had to be given up.

<sup>35</sup> As these were the main elements left from the neoliberal baggage of the Liberal Party which otherwise switched to an endorsement of the welfare state, they were pursued quite systematically.

<sup>36</sup> The Loimaan kassa (YTK) in Finland is currently the largest with 250.000 members in 2005 (Lind, 2006). In Denmark, the main actors are Krifa (176.000), FFA (23.000), ASE (150.000), and DLA (63.000)(<http://www.ak-samvirke.dk>; 31.Dec 2008). Krifa has been recognized since 1950, but membership has multiplied since the 1990s. FFA has been recognized since 1961 (Scheuer 2002: 69). ASE was recognized as an association for self-employed in 1976, but has also organized wage earners since 2002. DLA was established according to the new law in 2002 by a very entrepreneurial chairman who is also the chairman of three different "trade unions" (<https://www.detfagligehus.dk/biblioteket/vedtagter>).

<sup>37</sup> It is not perfectly clear what members' motives are, but in a Danish government survey on satisfaction (Uni-C 2007: 49), the most important reason given was dissatisfaction, followed by arguments regarding price, quality, or the relation between these two aspects. In short, exit seems more important than choice.

<sup>38</sup> In order to improve competitiveness, employer contributions were abolished in 1988.

<sup>39</sup> This was also a measure to safeguard the early retirement allowance scheme, however.

<sup>40</sup> This excludes contribution to voluntary early retirement allowance (efterløn) which is slightly higher.

However, a more subtle and less visible source of increasing contributions was *changing tax rules*. Contributions to unemployment insurance, trade union fees, etc used to be fully tax deductible. But in Denmark the tax value has gradually declined from up to 73 per cent for the highest incomes, to some 33 per cent after the 1998 tax reform, and 25 per cent when the 2009 tax reform is phased in. This involves a very strong increase in net contributions after tax and may have impacted on the outflow of members.

By 2007, Swedish member payments increased significantly. Contributions tripled as it increased by 220 SeK (21 €) on average per month – with a small differentiation according to unemployment level. Besides, the tax deduction (previously 40 per cent) was abolished. From mid-2008, differentiation was aggravated whereas average contributions were slightly reduced. Even though this was more than compensated by a quite big tax relief, higher contributions was followed by exit of about ½ million people from unemployment insurance in 2007-08 (Finanspolitiska Rådet, 2009: 188-190). As this was unwanted by the government in a time of economic crisis, it tried to compensate by a small reduction in 2009, while maintaining a maximum increase of 300 SeK (29 €). Accordingly, by 2010 gross contributions remained smaller in Sweden than in Denmark – whereas net contributions after tax were about the same. In Sweden, remaining tax deduction for union fees was also abolished in 2007; in Denmark the tax value will remain 25 per cent when the 2009 tax reform is fully implemented by 2019.

#### *Unemployment-dependent contributions*

From a “decommodification” perspective, it is important whether contributions are related to risk. From the perspective of solidarity or risk-pooling, a fundamental drawback of the Ghent system is the opportunity of low risk groups to opt out. From an economic incentive perspective, on the other hand, there is an argument for strengthening the association between risk and contributions.

This discussion surfaced in Denmark in 1984 when the government considered a reform that could relieve the state from the “marginal risk of unemployment”. The idea was to pay a fixed subsidy per member rather than reimbursing expenditures. This would have forced the funds to introduce an unemployment-dependent membership fee, variable from one fund to another.<sup>41</sup> However, the Ministry of Labour was against and suggested an earmarked tax for financing as an alternative. This would prevent excessive payments for members of funds with high unemployment – who at the same time tended (not surprisingly) to be at the bottom of the income hierarchy.

The Danish government’s reform ideas also included benefit cuts, and opposition was mobilized in the media, from the social partners, and within the parties themselves (Nørgaard, 2007: 190-191). Besides, crisis awareness was declining, 1987 was an election year, and the government was lagging behind in the polls. Not surprisingly, the great reform was cancelled – or at least postponed.

Ideas about new financing resurfaced in a large economic reform proposal in 1989 which failed (Arbejdsministeriet et al. 1989: 116-128; Finansministeriet 1989: 44-45). However, even after a subsequent electoral defeat in 1990 on a proposal of unfinanced tax relief, the government still gave priority to a reform of the financing of unemployment benefits. In 1992 this was part of the assignment for a corporatist labour market commission (the

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<sup>41</sup> A two-tier scheme was also discussed, with voluntary supplementary insurance (Ravn, 1984).

“Zeuthen Commission”). It discussed a variety of models (Udredningsudvalget, 1992: 106-131) without reaching agreement. As regards differentiation of contributions, however, the report was overwhelmingly negative because of distributional effects, and because positive incentive effects were considered unlikely, at least in the short run (Udredningsudvalget, 1992: 127).

Since then the idea of differentiation was not revived in Denmark. But the idea of providing an incentive lived on. In 1992 a tax commission dismissed the idea of differentiation as theoretically interesting but impossible to implement (Udvalget om Personbeskatning, 1992: 397). Instead the commission proposed an ear-marked tax for the financing of unemployment-related expenditures (Udvalget om Personbeskatning, 1992: 387-408). Even though this was a second-best solution in terms of incentives, it could still provide an incentive for wage moderation: The tax should be reduced if it exceeded unemployment expenditures.

This materialized as an ear-marked (and deductible) “labour market contribution” in the 1993 tax reform. The government report only paid lip service to the concern for incentives (Regeringen 2003: 9, 28) and seemed more concerned about Europeanization (p.9).<sup>42</sup> In the late 1990s, due to an unexpected decline in unemployment, the labour market contribution was supposed to be reduced (Finansministeriet, 2006). This did not happen, of course. The decline in unemployment reflected an over-heated economy, and decision makers realized that they had made a terrible mistake by introducing a pro-cyclical tax. As a solution, ear-marking was adjusted instead of contributions. From then, the labour market contribution was nothing but a “gross tax” – as it had been dubbed by the opposition from the beginning. After that, the idea of incentives in the tax/contribution to unemployment expenditures was completely dead in Denmark.

However, as contributions in Denmark were fixed anyway, a new potential emerged for a completely different type of liberal reform aimed at enhancing efficiency by allowing free competition and free user choice between unemployment insurance funds. This was pursued by the Liberal-Conservative government after 2001.

Exactly the differentiation according to unemployment that was given up by Danish governments, even in its awkwardly transformed version, was realized by the Swedish government in 2007/2008, however, as contributions to unemployment insurance included a differentiation according to unemployment level. The amounts of money involved are quite moderate, but institutionally, it represents a qualitative breakaway from the Social Democratic version of the Ghent model.

#### *Less generous benefits and goodbye to “flexicurity”?*

Benefit generosity has several dimensions. Our focus here is on duration and compensation. It is important, however, to consider the context (Goul Andersen, 2007b). Institutions are important, but *outcomes depend on context*, in particular on the business cycle. Sometimes it would require institutional change – or at least new *settings* of instruments – to

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<sup>42</sup> Actually, neither of these motives ever resurfaced in later discussions about taxation in Denmark. They simply reflected contemporary discussions about “insider – outsider” problems (for an overview, see Goul Andersen et al., 2003; Albrekt Larsen & Goul Andersen, 2004, 2009), and about the impact of the European Single Act and of the Maastricht Treaty. Future concerns were directed towards labour supply on the one hand and globalization on the other.

maintain the same outcome. This is the core argument involved in the argument about incremental but transformative institutional change in the form of *drift* (Hacker, 2005).

The importance of context explains why prosperity can sometimes facilitate cutbacks in the field of labour market policy – in contrast to the retrenchment perspective of the 1990s (Pierson 1994;1998): “Retrenchment” may be socially harmless in a context of prosperity. By the same token, institutional stability does not always indicate outcome stability. It depends on context. In short, context-stripped analyses may be misleading. In the context of economic crisis after the 2008 financial crisis, a critical question is whether institutions are “recession-proof” or may turn out to work quite differently than previously.

The long track of labour market reforms in Denmark 1993-2008 should be seen against the background of economic prosperity and improvement of job opportunities. The Danish reforms of the 1980s, on the other hand, were driven by economic austerity, like the Swedish and Finnish reforms in the 1990s. Cutbacks were economically necessary. And they did hurt, especially the suspension of indexation of maximum unemployment benefits from the end of 1982 to early 1986. However, this was from a very generous point of departure, and duration of benefits was not affected. From 1993-1998, duration was significantly reduced and conditionality became more strict, but since 1990 unemployment benefits was indexed by wages in the private sector. As indicated by a key outcome measure – the proportion of those registered as unemployed who receive unemployment benefits rather than social assistance, shorter duration and tightening of conditionality in Denmark was no disaster. The proportion of those registered as unemployed receiving unemployment benefits actually increased from around 80 per cent in the 1980s and early 1990s to around 85 per cent 2005-2009.

Both in Sweden and Denmark, replacement rate of unemployment benefits was 90 per cent from the early 1970s. Formally, this was maintained in Denmark. During the Swedish crisis of the 1990s, the replacement rate was reduced to 80 per cent in 1993, and in 1996 temporarily to 75 per cent, only to be changed to 80 per cent from 1997. However, what matters is the ceiling and the indexation of benefits. In both countries, the (relatively low) ceiling makes the compensation rate practically unimportant. In Denmark, nearly everybody receive the maximum unemployment benefits if they are at all eligible. As regards indexation, however, the Danish wage indexation system has been highly generous since 1990. In Sweden, on the other hand, automatic indexation of the maximum was abolished in 1993, and the maximum amount was only adjusted twice between 1993 and 2010 (Sjöberg, 2011).

Unlike Denmark and Norway, Sweden and Finland builds on a two-tier model with voluntary earnings related unemployment insurance (UI), on the top of a low, flat-rate basic unemployment assistance (UA) scheme which includes both insured and non-insured (but based on the same work conditionality as unemployment insurance). Those who are insured receive both; non-insured only receive the unemployment assistance (frequently supplemented by means-tested social assistance due to the very low replacement rate of unemployment assistance). In Sweden, this was combined with a slightly higher compensation during the first 20 weeks (Bennmarker et al., 2005). In Finland, UA continues without time limitations when insurance has expired, but as a means-tested benefit.

The Swedish unemployment benefit system has traditionally been described as “easy to enter but difficult to leave” provided that people participate in activation. This was signif-

icantly changed under the bourgeois government 2006-2010. Requalification through activation became impossible; only a “job and development guarantee” with a low compensation remained. Maximum unemployment benefits was reduced to a level substantially below the Danish. Moreover, the compensation rate was reduced to 70 per cent after 200 days (40 weeks), and further to 65 per cent after 300 days (60 weeks).<sup>43</sup> Duration was reduced to 300 days, but could be prolonged for another 300 day period. Finally, replacement is calculated on the basis of *annual* income – an attempt which was also made in vain in Denmark in the 1980s; since nearly all unemployed in Denmark have received the maximum since 1995, this proposal has become almost meaningless in a Danish context.<sup>44</sup> Finally, in the new Swedish system, young people reach the 70 per cent compensation already after 20 weeks and the 65 per cent after 40 weeks. Besides, education does not give access to unemployment benefits.

The Swedish reforms represent a quite dramatic change in generosity alongside the changes in financing. Whereas the relatively small changes in Norway and Finland basically confirm everything we know about politics of retrenchment (Pierson, 1994) – changes are reluctant, small and incremental – the Swedish story is different. It would hardly be an exaggeration to speak of a re-commodification and a privatization of social risk. As it simultaneously involves a weakening of the unions, “systemic retrenchment” (changes affecting future political games, c.f. Pierson, 1994) is also involved in addition to programmatic retrenchment.

Similar changes happened in Denmark in 2010. The Danish “flexicurity” system has been celebrated for its combination of generous benefits, flexible employment protection, and activation to bring people back to work – sometimes portrayed as a golden triangle by the EU and even by the OECD. As the ceiling of unemployment benefits is relatively low – virtually nobody obtains 90 per cent – the particularly generous “security” element of Danish flexicurity used to be the long duration of benefits. Until 2008, the bourgeois government abstained from reforming the system in order to avoid conflict with its substantial number of working class voters – and used the argument about flexicurity against ideological critics within the bourgeois parties (Regeringen, 2005).

However, in 2008 the government proposed to shorten duration of benefits in order to increase labour supply and overcome the shortage of labour power. The Social Democrats seemed tempted to raise the maximum in exchange for shorter duration which did not affect many members anyway. The government proposal was put forward in the early autumn of 2008 when the bottom of the unemployment curve was reached. Ironically, the peak of the economic growth curve had been passed long time ago, and Denmark was among the three OECD countries with the lowest GDP growth rate in the last eight quarters before the global financial crisis broke out (Goul Andersen, 2011c, 2011d). Actually, Denmark was also among the OECD countries with the lowest growth rate for the entire decade. For unfathomable reasons, this was never discovered by Danish politicians, and it even took surprisingly long time to realize that the collapse of Lehman Brothers 15. Sep. 2008 would introduce a deep economic crisis (Goul Andersen, 2010a, 2011c). But in October 2008, this was gradually realized, and not surprisingly, the negotiations broke down. One might have expected that the issue would be dead during the recession. When a Labour Market Commission (2009) presented its report in the spring 2009 – recommending,

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<sup>43</sup> People with children under 18 maintain 70 per cent for additional 30 weeks.

<sup>44</sup> Such a proposal was actually included in the compromise over a Danish economic recovery plan in May 2010, but was soon given up, most likely because it didn’t really make sense.

inter alia, shorter duration of unemployment benefits – the recommendations were discarded by the government even before they were published. However, by May 2010, the government proposed an “economic reconstruction” programme as a means to reduce a large budget deficit.<sup>45</sup> This contained nothing about reforming the unemployment benefit system, but after a few days of negotiations with the Danish People’s Party, the parties came up with a compromise which bore little resemblance to the government’s proposals. And to everybody’s surprise, the compromise included a reduction of duration of unemployment benefits from four to two years. Moreover, requalification requirement was raised from 26 weeks of unsupported employment to 52 weeks. At that time, shortly after the peak of employment in 2008, the new rules would affect only a few thousand people (who would be exempted by transition rules). However, in a context of enduring unemployment (harmonized unemployment rate was around 8 per cent by the end of 2010), these changes became much more important. The new duration rules will become effective from July 1, 2012, but at the time of writing it is uncertain whether the Danish government will intervene.

From an international comparative perspective, a two year duration of unemployment benefits cannot be pictured as a social disaster. But as duration was the main element of unemployment protection in Denmark that could be pictured as “generous”, it actually does mean that the much-heralded Danish system of “Flexicurity” was nearly abandoned overnight. Flexibility remains, but apart from relatively high minimum levels, the Danish unemployment benefit scheme can hardly be described as particularly “generous” anymore.<sup>46</sup> In short, both in Sweden and Denmark there have been more thorough changes in unemployment protection 2005-2010 than has been seen for decades.

Moreover, the financing of unemployment insurance in Denmark was completely changed by the 2008 reform. As mentioned, this was decided in the negotiations over the 2009 state budget between the government, the Danish People’s Party and a tiny neoliberal splinter party. Ironically, the issue was not at all debated in the (closed) negotiations as this was not a key issue for any of the parties involved in the negotiations (Breidahl & Seemann, 2009). Nor was it discussed in the media until afterwards. However, it was a far-reaching reform. From 2010, municipalities became economically responsible for payment of unemployment insurance. They are subject to a performance-dependent reimbursement by the state – similar to the reimbursement of social assistance expenditures. Contrary to expectations, it was implemented during the worst economic downturn in peacetime for 150 years. As this could have significant consequences for the municipal economy, the economic part of the reform was phased in gradually, and schemes were announced to be adjusted if necessary within three years.

Municipalities are compensated for regional fluctuations in unemployment. This means that the important parameter is whether a municipality has higher unemployment than its neighbours (and which region it is allocated to). Bringing people to work is most beneficial, of course, but as municipalities do not have that much control over their surroundings, they are induced to go for activation instead. The financing is rather complicated. For insured unemployed, the municipality will pay 25 per cent when people are in activation, 50

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<sup>45</sup> Less explicitly, the purpose also was to cover a unfinanced tax relief given as introduction to the 2007 election campaign. Turning vice into virtue, the Danish government included the tax relief as an anti-recession initiative in its accounts of such measures to the EU.

<sup>46</sup> In addition, unions in the 2010 collective negotiations managed to negotiate new employment protection measures which are mainly beneficial to employees with long tenure. There might be a *da capo* for this in 2012.

per cent when they are passive, and 100 per cent if they are not in activation when they were supposed to be, according to the law.

It is difficult to guess about effects (Det Økonomiske Råd 2009a; Nørgaard 2009). Municipalities have a strong incentive to go for activation, preferably as cheap as possible, or as a de facto replacement of public employees by people in activation. There is any reason to assume that municipalities will react to these incentives – but the effects could be highly counter-productive. By the end of 2010 the minister of employment had to modify the compensation for “meaningless” activation.

Next, there is reason to assume that with the new structures, the government will find it easier to overcome corporatist resistance, professional norms, and other obstacles to implementation at the local level. This is most likely not an instance of dismantling the welfare state, nor was this the intention. But the combination of significant institutional and administrative change means that it is unlikely to be a matter of simple continuity. The outcome of this combined centralization and fragmentation remains to be seen.

Even though it is too early to assess the impact of recent Swedish and Danish reforms, the changes do represent instances of re-commodification that go further than any other reform in these countries over the last 3-4 decades, and the Swedish government did manage to get through with reforms that had to be given up by the Danish governments in the 1980s. As empirical studies converge in the conclusion that economic incentives may be important for short-term unemployed but not for long-term unemployed (e.g. Smith & Pedersen, 2000; Goul Andersen, 2003; Clement & Goul Andersen, 2006; Rosdahl, 2006), there are no reasons to expect that the changing profile of compensation in Sweden will be effective. The shorter duration in Denmark could turn out to have a measurable effect, but changes in financing could be quite counterproductive. If the recession is prolonged, there may be a quite significant social impact in both countries.

## **8. Conclusions**

As regards the changes in unemployment insurance in Sweden and Denmark, the last chapter of the story is not yet written. Even though the Swedish government seems to have given up the idea of a mandatory system, it remains to be seen what sorts of amendments the Danish government will make. But in both instances, we face a quite significant break up of structures that were believed to be stable. And in both instances, one could speak of quite strong tendencies of recommodification until now. Ironically, this was carried through by centre-right governments that pictured itself as relatively “Social Democratic”, but the changes were certainly more profound and less “Social Democratic” than what has been seen under centre-right governments previously when they were deliberately seeking a neo-liberal branding.

However these stories may end, there has been quite significant changes of social protection and tax systems in the Nordic countries which do seem to converge in the ambition to include more people in the labour force and to induce increasing labour supply in general, e.g. via the tax system. Efforts to include unemployed have been extended to nearly all groups of non-employed. Employment efforts are directed to a much broader target group than previously, and administrative structures have been adopted – more or less successfully – in an attempt to adapt to this situation. Pension and retirement systems are adapted to



induce later retirement. And tax systems have been adjusted to encourage increasing labour supply. Whether any of these efforts will work, remains to be seen.

It also remains to be seen whether these reforms may undermine citizenship. Perhaps the most basic change is that this possibility cannot be ruled out beforehand. Nobody could object to efforts to enhance opportunities of labour market participation for groups that are excluded or marginalized in relation to the labour market. This is certainly in accordance with the Nordic tradition. Whether this will work, and whether the same efforts will unintentionally have the side effect of deteriorating citizenship for those who do not manage to find a job, is the crucial question.

**Appendix table 1. Employment rates and labour force participation rates among 55-66 years olds in Denmark, according to register based labour force statistics (RAS). Percentages.**

**A. Employment rates, 1997-2009. Percentages.**

		1997	2000	2003	2006	2009	change 1997-2009
55-59 y.	Total	64,6	70,4	73,7	75,8	78,9	+14.3
	Men	74,0	77,9	79,1	79,6	81,2	+7.2
	Women	55,2	62,9	68,3	71,9	76,5	+21.3
60-64 y.	Total	29,9	30,6	35,8	38,9	43,0	+13.1
	<b>Men</b>	<b>39,1</b>	<b>40,2</b>	<b>45,7</b>	<b>48,0</b>	<b>51,9</b>	<b>+12.8</b>
	<b>Women</b>	<b>21,2</b>	<b>21,5</b>	<b>26,2</b>	<b>29,9</b>	<b>34,2</b>	<b>+13.0</b>

**B. Labour force participation rates, 1997-2009. Percentages.**

		1997	2000	2003	2006	2009	change 1997-2009
55-59 y.	Total	70,8	74,5	79,1	81,3	80,3	+9.5
	Men	80,1	82	84,2	84,7	82,9	+2.8
	Women	61,6	66,9	74	77,9	77,7	+16.1
60-64 y.	Total	33,8	32	37	40,1	43,4	+9.6
	<b>Men</b>	<b>43,2</b>	<b>41,8</b>	<b>47,3</b>	<b>49,6</b>	<b>52,4</b>	<b>+9.2</b>
	<b>Women</b>	<b>25,0</b>	<b>22,6</b>	<b>27,0</b>	<b>30,7</b>	<b>34,4</b>	<b>+9.4</b>

**C. Labour force participation rates and employment rates among 65-66 years old, 1997-2006. Percentages.**

		1997	2000	2003	2006
Lab force particip. rate	Total	17,5	15,7	16,8	19,0
	Men	24,5	22,2	24,3	26,9
	Women	11,3	9,7	9,9	11,4
Employment rate	Total	16,2	15,2	16,4	18,9
	Men	22,9	21,5	23,7	26,8
	Women	10,1	9,3	9,6	11,3

Source: www.statistikbanken.dk (tables=RASF & RASF1). Read 27.July 2010.

**Appendix table 2. Disability benefits in the Nordic countries, 1999-2006. Per cent of WAP.**

	1999	2004	2006
Denmark	9.0	8.9	8.5
Norway	9.5	9.5	9.4
Sweden	9.3	11.4	11.2
Finland	10.1	8.8	9.2

Source: OECD (2010a). WAP=Working age population.

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